MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

BBF3034–ANALYSIS AND VALUATION OF FINANCIAL STATEMENTS

(All sections / Groups)

25 OCTOBER 2017
9.00 a.m–11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 4 Questions only.

2. Attempt all the **FOUR** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a. You are required to prepare Statement of Comprehensive Income and Statement of Financial Position for Goldman Sdn. Bhd. as at 30th May 2017 using both Fair Value Accounting and Historical Cost Accounting. Information given as per below:

- The company bought a land at cost RM 800,000 at 1st June 2016. 50% of the money coming from issuing equity and the remaining from issuing 8% bond at par value.
- The land rents out RM 50,000 per year
- As at 30th May 2017, the market value for the land has increased to another 20% from its cost.
- It is assumed that the land has a useful life of 100 years with a salvage value of RM 100.000. The company is adopting a straight line method to calculate its depreciation expenses.
- At 30th May 2017, the market value of the bonds has fallen to RM 300,000.

(21 marks)

b. Due to the deviations of reported information in financial statements, analysts faced problems identifying the actual risk encountered by the business in the reality. Explain **TWO (2)** sources of accounting distortions in full. (4 marks)

(Total: 25 marks)

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QUESTION 2

a. Below are selected ratios for GoldTrue Sdn. Bhd. and SilverBlack Sdn. Bhd.. Use this information to answer the following questions.

		GoldTrue Sdn. Bhd.	SilverBlack Sdn. Bhd.
1	Net Operating Asset Turnover	4.0	4.0
2	Receivable Turnover	12.0	12.0
3	Inventory Turnover	4.6	4.0
4	Non-Current Asset Turnover	1.8	2.0
5	Gross Profit Margin	21.1%	19.8%
6	Net Operating Profit Margin	4.5%	2.9%
7	Asset to Equity	1.8	2.8
8	Earnings before interest and taxes/Revenues	9.9%	8.6%

Assume a corporate tax rate of 38%. Compute the return of net operating asset (RNOA) and return on common equity (ROCE). (8 marks)

b. You are given the below information. Assuming all the given information is deem for the year.

- Sales are RM 3.5 million, 50% is credit sales and 50% is cash sales
- Gross profit margin and net profit margin are 40% and 10% respectively
- Assume there are 360 days in the year
- Total assets at year end is 50% of the sales, while total liabilities are 70% of total assets
- Cash on hand at the end of year is 4% of the total sales
- Basic earnings per share is RM 1.21
- Net operating cash flow is RM 522,304
- Closing share price is RM 23.50
- Book value per share is RM 2.61
- Days to sell inventory is 30 days

Compute the return on common equity, total current assets and price to earnings ratio. (9 marks)

c. Companies will always engage in four major business activities in order to reach their goals. Explain the **FOUR (4)** major activities in full. (8 marks)

(Total: 25 marks)

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QUESTION 3

a. Suvin Corporation is a Malaysian listed company that deals with food and beverages. It has been in operation since 1995. At the beginning of 2016, Suvin's book value per share was RM12. Its earnings per share and dividend per share for 2016 were RM5 and RM1 respectively. Suvin expects to maintain its current dividend payout ratio. Suvin's shares are currently trading at RM45 per share.

Analysts predict that earnings per share for 2017 will be RM6. Furthermore, they also predict that the earnings per share will grow at 25% per year for the following four years (2018-2021). After which, the abnormal returns are expected to be zero.

Suvin's cost of equity capital is 10%. Determine the target price of Suvin Corporation for the end of 2016.

(15 marks)

b. Shown below are Isha Corporation's balance sheets and income statement.

Isha Corp.'s Balance Sheet as at December 31, 2015 and 2016

	2015	2016
Cash	RM 200,000	RM 250,000
Receivables	310,000	350,000
Inventories	100,000	120,000
Total current assets	610,000	RM 720,000
Net fixed assets	560,000	600,000
Total assets	RM 1,170,000	RM 1,320,000
Accounts payable	RM 180,000	RM 200,000
Interest payable	12,000	15,000
Total current liabilities	RM 192,000	RM 215,000
Long-term debt	250,000	225,000
Common stock	350,000	330,000
Retained earnings	378,000	550,000
Total liabilities and equity	RM1,170,000	RM 1,320,000

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Isha Corp.'s Income Statement for the year ended December 31, 2016

Sales	RM 700,000
Cost of goods sold	(350,000)
Depreciation expenses	(40,000)
Interest expenses	(20,000)
Gain on sales of fixed asset	10,000
Income Taxes	(105,000)
Net income	RM 195,000

Compute Isha's cash flow from operation for year 2016 using both the direct and indirect method. (10 marks)

(Total: 25 marks)

QUESTION 4

a. Kristen Sdn. Bhd. was established in the year 2004. It is a large company and listed on the Bursa Malaysia on 2016. Indicate the effect of the following independent actions on Kristen's *current ratio, accounts receivables turnover* and *times interest earned ratio*. Assume the company has a current ratio of 2, accounts receivables turnover of 4 and times interest earned ratio of 1.5. Indicate whether the effect is an increase (I), decrease (D) or if it has no effect (NE). Provide explanations.

i. Changed from straight line depreciation technique to accelerated techniques (3 marks)
ii. Changed from LIFO to FIFO inventory costing method (3 marks)
iii. Issued bonds (3 marks)
iv. Write-down inventory (3 marks)
v. Customers paid as quickly as possible (3 marks)

b. Explain **FIVE (5)** reasons why ROI (return on investment) measures may not be the best measures of performance. (5 marks)

c. Explain the term *asset pricing model.* Identify **TWO (2)** asset pricing models. (5 marks)

(Total: 25 marks)

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